

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 HO CHI MINH CITY 001359

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [ETRD](#) [EINV](#) [SOCI](#) [PHUM](#) [PREL](#) [KIRF](#) [KPAO](#) [VM](#) [SOE](#) [HIV](#) [AIDS](#) [RELFREE](#)

SUBJECT: KHANH HOA PROVINCE: DELAYED DEVELOPMENT

REF: HCMC 1270

SUMMARY

1. (SBU) Khanh Hoa Province on Vietnam's central coast is attempting a development strategy based on tourism, seafood and maritime transport. Geography, natural resources, and workforce give the province excellent development potential and some infrastructure investment is underway. However, a reliance on state owned enterprises, and a political insider/Vietnamese-style crony state capitalism model may temper prospects for rapid growth. Social investment, for example in HIV/AIDS prevention and education, appears to be inadequate. End Summary.

2. (SBU) Consul General visited Nha Trang and Khanh Hoa province October 12-13 and met with the Communist Party Secretary (reportedly the first Western official to do so), the Chairman of the People's Committee, foreign corporations, state-owned enterprises, religious figures, civil society leaders, and scientific and educational institutes.

STATE CAPITALISM ON THE CENTRAL COAST

3. (SBU) Party officials and the People's Committee focused on plans to develop a major seaport and tourism center at Van Phong Bay located 50 km north of Nha Trang City. Party Secretary Nguyen Van Tu requested USG assistance in finding investors. Tu stated that although no development of the site has begun, Van Phong Bay's deep protected waters make it an ideal seaport and that by 2020 it would be competing with the largest ports in Southeast Asia. CG asked why Khanh Hoa was pursuing the development of a new seaport at Van Phong Bay when facilities already exist in the province at Cam Ranh Bay. Tu said the Vietnamese armed forces were not prepared to give up Cam Ranh Bay for commercial shipping. He said that former Prime Minister Vo Van Kiet had advocated developing Van Phong for ecological tourism with port facilities limited to an oil transfer station. However, he said enthusiastically, a Party Central Committee investigation team had supported the Van Phong Bay development projects and Prime Minister Phan Van Khai had no choice but to approve the ambitious plan by the Ministry of Transportation to build an international container terminal.

4. (SBU) Deputy Party Secretary Pham Van Chi joined partway through the meeting. He is directly responsible for Van Phong Bay and had served until this spring as the Chairman of the People's Committee. (Note: Contacts said that Mr. Chi and his family members had extensive interests in business around the province. End note.) In a separate meeting, People's Committee Chairman Vo Lam Phi reiterated Khanh Hoa's interest in Van Phong Bay, stating that it was the primary focus of the Committee's plans to develop the province's transport, tourism, and seafood industries. When asked how the USG and Khanh Hoa Province could best work together, Chairman Phi again returned to Van Phong Bay, suggesting that we help find investors for the project.

5. (SBU) Secretary Tu also noted Khanh Hoa's success in creating more than 1200 new small and medium businesses in the past three years. (Note: In contrast, Ho Chi Minh City registers approximately 250 new businesses per week. End note.) These firms were creating 21,500 new jobs per year, he said. Chairman Phi pointed to state-owned enterprise Khanh Viet Corporation as a model for development in the province, noting that Khanh Viet provides 33 percent of the province's tax revenue.

6. (SBU) State-owned enterprise Khanh Viet Corporation (KVC) is the primary source of tax revenue for the province based on cigarette production. KVC Chairman Nguyen Xuan Hoang told CG that KVC is the largest corporate group in central Vietnam. Although KVC consists of twenty subsidiaries in various sectors, it employs only 4000 people. Mr. Hoang stated that the corporation is based upon capitalist principals and ensures equality for all of its subsidiaries, although it maintains control of business strategies and budget, and reserves the right to move executives. KVC's tobacco interests constitute 70 percent of the corporation, but it does not export its tobacco products. KVC is also involved in tourism and textiles and is looking to expand into the production of crocodile and ostrich leathers in the near future. Mr. Hoang boasted that of the 80 people KVC has working in its headquarters, only five were required to manage its imports and exports. Mr. Hoang also stated that KVC has never been subjected to an outside

audit.

BUSINESS SUCCESS STORIES

17. (SBU) Hyundai-Vinashin Shipyard (HVS) represents the first heavy industry development in Khanh Hoa. Begun in April 1999, HVS has grown rapidly, currently employing nearly 4,000 Vietnamese and Korean staff. The yard includes two graving docks and a series of quays. Four ships ranging from 50,000 to 150,000 deadweight tons were undergoing repair. The yard can service and repair ships of up to 400,000 dwt. Ships average between 5 and 15 days in service and yard bills seem to range from USD 250,000 to USD 1.5 million. HVS President Sung Woo Lee stated that the company's success stems from the availability of skilled and inexpensive labor, cooperative local authorities, favorable import/export regulations, and a joint venture partner (Vinashin) that has played a critical role in working with authorities. HVS plans to begin building ships in the next few years.

18. (SBU) Philippine-based Rapexco Rattan Export Company currently has 7,000 employees working in its two Khanh Hoa factories; the firm exports more than 3,000 containers of rattan furniture annually and is a major supplier to IKEA and other furniture companies. Rapexco's U.S. citizen country manager explained that the company's success was based on the ready availability of quality inexpensive labor and an experienced Manila-based business office skilled in working with US and international markets.

19. (SBU) Ms. Le Thi Thu Ha is General Director of Khanh Hoa Trade & Investment Corporation (KHTI), a state-owned enterprise under the People's Committee with interests in luxury resorts, industrial parks, and import/export companies. She stated that KHTI's success is based not only on its relationship with the People's Committee but also on a business strategy focused on a bottom line. KHTI is involved in developing projects, each of which is managed by a joint venture partner. Ms. Ha noted several factors inhibiting development in Khanh Hoa and Vietnam in general, most notably the high cost and slow pace of equitization, limitations on foreign land ownership, strict labor laws, and the lack of a banking system and capital market. (For example, she said that KVC's cigarette factories made the company a cash cow, but it did not know what to do with the proceeds and was pouring money into poorly planned investments, even as KHTI was starved for investment capital for bankable projects.) Ms. Ha stated that these issues were on the agenda for the annual meeting between the Vietnam Chamber of Commerce and Industry (VCCI) with the Prime Minister. CG asked directly who in the Party leadership could advance these issues effectively. She responded pessimistically that she could think of no one.

CIVIL SOCIETY IN KHANH HOA

10. (SBU) Visits to the Long Son Pagoda and the Sao Bien Major Seminary demonstrated that Buddhist and Catholic organizations have little trouble operating but face close government supervision. Father Tran Thanh Phong, Rector of the Sao Bien Seminary, indicated that because Nha Trang is a tourist center, the seminary's activities enjoy a certain level of additional protection. Father Phong said the church is not permitted to teach catechism other than as part of Sunday services and that any efforts to bring in converts to the Catholic community are discouraged. However, he noted that there had not been any problems in working with the Vatican. A meeting with Thich Tri Tam, Venerable Bonze of the Long Son Pagoda, was not nearly as informative, as the bulk of the meeting featured the Bonze's recitation of a prepared statement while under the gaze of military police standing just outside the open door. Bonze Tam stated that the pagoda had absolutely no problems with the local authorities.

11. (SBU) HIV/AIDS is clearly an emerging issue in Khanh Hoa Province. People's Committee Chairman Phi noted that the province has the tenth highest infection rate in Vietnam. He cited Khanh Hoa's active publicity campaign promoting the use of condoms, adding that it is the only province to set up a separate protection center for victims of HIV/AIDS, the Center for Health Education and Communication. However, Mr. Luong Duc Hoa, a project officer with the center, stated that support from the local government is inadequate to meet the center's needs. He complained that the total annual budget allocated to the center by the PC was only USD 1,000. Although the center has received some funding from the Ford Foundation, Mr. Hoa hopes that further funding from PEPFAR may become available for the center, which has the only program in Vietnam designed for men who have sex with men (MSM).

12. (SBU) Higher education also appeared underfunded. Dr. Lien, Rector of the University of Fisheries, remarked that the local authorities have not provided sufficient support to the university, thereby limiting its ability to attract qualified faculty. Chairman Phi indicated that the province hopes to transform the Teacher Training College into a university and some vocational schools into colleges, but did not provide a time line.

13. (SBU) Comment: Despite potential, Khanh Hoa appears to be hindered by a strong state/crony capitalism approach and the authorities' reliance on state-owned enterprises. Officials' hopes for the Van Phong Bay project as the next great cash cow for the region seem misplaced. Success stories such as Hyundai-Vinashin and Rapexco have had passive cooperation but no active government involvement. Furthermore, key areas in health and education are underfunded. In contrast, up the coast in Danang, the authorities have stressed public infrastructure investment to attract investors to take advantage of similar resources (Reftel). In Khanh Hoa, authorities seem to believe that they can lure investors into building the infrastructure as a means of developing the local economy.

WINNICK